



RSM Allied Accountants
Dr.abdelgadir Bannaga & Partners Co.

Mulkia Gulf Real-Estate REIT Fund
(Managed by Mulkia Investment Company)

Financial Statements

For the Period from 5 November 2017 (since inception) to 31 December 2017
With Auditor's Report

Mulkia Gulf Real-Estate REIT Fund**Financial Statements and Auditor's Report**

For the Period from 5 November 2017 (since inception) to 31 December 2017

Description	Page
Auditor's Report	-
Balance Sheet	3
Income Statement	4
Statement of Cash flows	5
Statement of Changes in Net Assets	6
Notes to the financial statements	7-10

Auditor's Report

To the Unitholders of Mulkia Gulf Real-Estate REIT Fund

Opinion

We have audited the financial statements of Mulkia Gulf Real-Estate REIT Fund ("The Fund") managed by Mulkia Investment Company ("The Manager"), which comprise of statement of financial position as of December 31, 2017, and the statements of income, cash flows and change in net assets for the period from 5 November 2017 till 31 December 2017 and notes to these financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mulkia Gulf Real-Estate REIT Fund as of December 31, 2017 and the results of its operations and cash flows for the period then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Basis of our opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the fund in accordance with the International Ethics Standards Board for Accountants' code of ethics for professional accountants (IESBA Code) related to our audit for these financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatements, whether due to fraud or error.

In preparing financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance to International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As a part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk is not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events are conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentations, structure and the content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

RSM Allied Accountants

Dr. Abdelgadir Bannaga and Partners Company



Mohammed Al Nader

License No. 435

29 Jumada Al-Awal 1439 H (15 February 2018)

Riyadh, Saudi Arabia



Mulkia Gulf Real-Estate REIT Fund
Balance Sheet
As at 31 December 2017

	<u>Note</u>	<u>2017 SR</u>
<u>Assets</u>		
Cash at Banks		18,299,137
Investment in real estate properties, Net	5	598,133,267
Account receivable from Lease		1,614,215
Prepayments		54,888
Total Assets		618,101,507
<u>Liabilities</u>		
Deferred revenue	6	11,227,292
Fees Payables		975,366
Accrued Expenses		363,089
Total Liabilities		12,565,747
Net assets		605,535,760
Units in issue		60,000,000
Per unit value		10.09

The accompanying notes (1) to (11) form an integral part of these financial statements

Mulkia Gulf Real-Estate REIT Fund**Income Statement****For the Period from 5 November 2017 (since inception) to 31 December 2017**

	<u>Note</u>	For the period from 5 November 2017 (since inception) to 31 December 2017 SR
Revenue		
Rental revenue		<u>7,880,674</u>
Total Income		<u>7,880,674</u>
Expenses		
Managements fees	9	(930,129)
Custodian fees		(70,236)
Real estate properties depreciation	5	(931,205)
Other administrative expenses		<u>(413,344)</u>
Total Expenses		<u>(2,344,914)</u>
Net Income from Operations		<u><u>5,535,760</u></u>

The accompanying notes (1) to (11) form an integral part of these financial statements

Mulkia Gulf Real-Estate REIT Fund**Statement of Cash flows****For the Period from 5 November 2017 (since inception) to 31 December 2017**

For the period
from 5
November 2017
(since inception)
to 31 December
2017
SR

Operating activities

Net Income from operations for the period	5,535,760
Adjustments to reconcile net income from operations with net cash used in operating activities:	
Real estate properties depreciation	931,205
	<u>6,466,965</u>

Change in operating assets and liabilities

Investment in real estate properties	(599,064,472)
Account receivable from Lease	(1,614,215)
Prepayments	(54,888)
Deferred revenue	11,227,292
Fees Payables	975,366
Accrued Expenses	363,089
Net cash used in operating activities	<u>(581,700,863)</u>

Financing Activities

Proceeds from sale of units	600,000,000
Net cash from financing activities	<u>600,000,000</u>
Net increase in cash at banks	18,299,137
Cash at banks at the beginning of the period	-
Cash at banks at the end of the period	<u><u>18,299,137</u></u>

The accompanying notes (1) to (11) form an integral part of these financial statements

Mulkia Gulf Real-Estate REIT Fund**Statement of Change in Net Assets****For the Period from 5 November 2017 (since inception) to 31 December 2017**

For the period
from 5
November 2017
(since inception)
to 31 December
2017
SR

Net assets at the beginning of the period

-

Net Income from operations

5,535,760

Change from units transactions

Proceeds from sale of units

600,000,000

Value of units redeemed

-

Net change from units transactions

600,000,000

Net assets at the end of the period

605,535,760

Units Transactions

Transactions in units are summarized for the period as follows:

For the period
from 5
November 2017
(since inception)
to 31 December
2017
Units

Units at the beginning of the period

-

Units sold

60,000,000

Units redeemed

-

Net increase in units

60,000,000

Units at the end of the period

60,000,000

The accompanying notes (1) to (11) form an integral part of these financial statements

Mulkia Gulf Real-Estate REIT Fund

Notes to the financial statements

For the Period from 5 November 2017 (since inception) to 31 December 2017

1- Fund Activities

Mulkia Gulf Real-Estate REIT Fund (The Fund) is a closed ended Shariah compliant real estate investment traded fund. The objective of the fund is acquisition of pre-developed real estate properties in order to obtain regular and frequent rental income and distribute a minimum of 90 percent of fund's net income to unit holders during the lifetime of the fund at least once annually within 90 days after financial year end which ends on December 31.

The Fund was started its operations on 16 Safar 1439 H (corresponding to 5 November 2017).

The fund is managed by Mulkia Investment Company. The books and records of the Fund are maintained in Saudi Riyals (SAR).

2- Regulating authority

The Fund is governed by the Real Estate Investment Fund Regulations (the regulations) and instructions for Real-Estate Funds issued by CMA on 19 Jumad Al Thani 1427 H (corresponding to 15 July 2006) and 23 Muharram 1438 H (corresponding to 24 October 2016) Respectively, detailing requirements for all real state funds operations within the Kingdom of Saudi Arabia.

3- Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with accounting standards issued by Saudi Organization for Certified Public Accountants (SOCPA).

The significant accounting policies adopted are as follows:

Basis of measurement

The financial statements are prepared under the historical cost convention, using accrual basis of accounting and going concern concept.

Use of estimates and judgments

the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense, although these estimates and judgments are based on management's best knowledge of current events and actions, Actual results may differ from these estimates.

4- Significant accounting policies

The significant accounting policies adopted are as follows:

Investments in real estate properties

Real estate investments are recognized and represented in the buildings and lands which are used for rental purposes by cost net of accumulated depreciation, if any, there are no depreciation of lands, building depreciation is computed using the straight-line method over its estimated useful lives based on the following useful lives.

<u>DES.</u>	<u>Years</u>
Buildings	40 Years

The fair value of investments in real estate properties is disclosed in the notes to the financial statements.

4- Significant accounting policies (continued)**Revenue recognition**

Revenue rent is recognized according to accrual convention.

Zakat and income tax

Zakat and income tax are considered to be the obligation of the unit holders and are not provided for in these financial statements.

5- Investments in real estate properties, Net

The composition of the investments in real estate properties by historical cost is as follows:

	Lands on which buildings are constructed SR	Buildings SR	Total SR
Cost			
Beginning of the period	-	-	-
Additions during the period	369,735,437	229,329,035	599,064,472
End of the period	369,735,437	229,329,035	599,064,472
Accumulated depreciation			
Beginning of the period	-	-	-
Charge for the period	-	931,205	931,205
End of the period	-	931,205	931,205
Net book value			
December 31, 2017	369,735,437	228,397,830	598,133,267

The investment in real estate properties are presented at historical cost. The fair value of investment in real estate properties is based on an average of two market value evaluations prepared by independent evaluators. These values which are based on the estimates of the independent evaluators are subject to their estimation uncertainties.

The investment in real estate properties is represents as follows:

- Yasmeen property: represents a residential property located on El-Yasmeen District in north of Riyadh.
- Teknaya Compound: represents a commercial industrial compound consisting of five car maintenance centers, and 2 car showrooms and a spare parts sales center located southeast of Riyadh.
- Dinar property: represents a commercial property located on El-Zahraa District in Jeddah.
- West Avenue property: represents a commercial property located on El-Faysalia District in Dammam.
- Vivienda Compound: represents a participation by 14.4% in the hotel villas compound located on Prince Faisal Bin Fahad Bin Abdul Aziz Road in Al-Hada district in Riyadh.

Title deed of real estate property was registered in the name of Tamdeen El Ola Real Estate Company, the company was established for registration and custody of fund's assets based on CMA decision No. 1/6/4902/17 dated 28 September 2017.

Mulkia Gulf Real-Estate REIT Fund

Notes to the financial statements (continued)

For the Period from 5 November 2017 (since inception) to 31 December 2017

6- Deferred revenue

Deferred revenue is represented in the revenue from investment property rental contracts which does not belong to the year ended December 31,2017.

7- Risk management

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Fund is exposed to credit risk on its bank balance and account receivable, the bank balance is maintained with reputed local banks in the Kingdom of Saudi Arabia, the fund seeks to reduce its credit risk with respect to customers by regular monitoring of outstanding receivables.

Liquidity risk

Liquidity risk is the risk that the fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The fund manages its liquidity risk by ensuring that the necessary funds are available when needed.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The fund's main transactions are in Saudi Riyals. Management keeps monitoring the associated currency risk which is mostly not material.

Market risk

The Fund will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth of the Kingdom, interest rates, demand-supply of land, availability of financing, investor sentiment, liquidity, legal, foreign exchange rate and regulatory environment.

8- Effect on net assets value if investment in real estate properties are fair valued

In accordance with Article 22 of the Real Estate Investment Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the fund manager evaluates the fund's assets based on an average of two valuations prepared by independent evaluators. As set out in the terms and conditions of the fund, net assets values declared and management fee calculations are based on the market values obtained. However, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost in these financial statements.

- 1- The unrealized loss on real estate properties based on real estate evaluations (fair value) as at 31 December 2017 as follows:

	2017
	SR
Fair value of investment in real estate properties	587,276,384
Cost value of investment in real estate properties (Note no. 5)	(598,133,267)
Unrealized loss based on real estate evaluations	(10,856,883)
Units in issue	60,000,000
Per unit share in unrealized gain based on real estate evaluations	(0.18)

Mulkia Gulf Real-Estate REIT Fund

Notes to the financial statements (continued)

For the Period from 5 November 2017 (since inception) to 31 December 2017

8- Effect on net assets value if investment in real estate properties are fair valued (continued)

- 2- The net assets values using the fair values of the real estate properties as at 31 December 2017 as follows:

	2017 SR
Net assets value at cost as presented in these financial statements	605,535,760
Unrealized loss based on real estate evaluations (Note 8-1)	(10,856,883)
Net assets value based on fair value	594,678,877

- 3- The net assets value per unit using the fair values of the real estate properties as at 31 December 2017 as follows:

	2017 SR
Net assets value per unit at cost as presented in these financial statements	10.09
Impact on net assets value per unit on account of unrealized gain based on real estate evaluations (Note 8-1)	(0.18)
Net assets value per unit at fair value	9.91

9- Transactions with related parties

The Fund pays the fund manager a management fee of 1 % per annum calculated on the net assets of the fund calculated and paid half yearly for the purpose of calculating management fees is based on the fair value of investment in real estate properties. (Note no. 8).

Significant related party transactions during the period are described as follows:

Related Party	Nature of transactions	Amount of transactions for the Period from 5 November 2017 (since inception) to 31 December 2017	Balances at 31 December 2017
		SR	SR
Mulkia Investment Company	Management fees	930,129	930,129
	Expenses paid on behalf	282,448	282,448

The unit holders' account at 31 December 2017 included 1,500,000 units held by the Fund Manager.

10- Last valuation day

The last valuation day was 31 December 2017.

11- General

The figures in these financial statements are rounded to the nearest Saudi Riyal.